

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

CONDITION AND ECONOMIC RECOVERABILITY OF
MATERIEL IN THE DISPOSAL PROCESS

Report No. 93-132

June 30, 1993

Department of Defense

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The following acronyms are used in this report.

DCC.....	Disposal Condition Code
DRMO.....	Defense Reutilization and Marketing Office
DRMS.....	Defense Reutilization and Marketing Service
FCC.....	Federal Condition Code
SCC.....	Supply Condition Code



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202

June 30, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Audit of Condition and Economic Recoverability of Materiel in the Disposal Process (Report No. 93-132)

We are providing this final report for your information and use. It addresses the propriety of condition codes that were assigned to excess materiel turned in to the Defense Reutilization and Marketing Service (DRMS) and the control of and accounting for materiel by DRMS and the DoD activities that withdrew materiel from the disposal process for reutilization. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Assistant Secretary of Defense (Production and Logistics); the Inspector General, Department of the Army; the Assistant Secretary of the Navy (Financial Management); the Assistant Secretary of the Air Force (Financial Management and Comptroller); Director, Defense Finance and Accounting Service; and the Director, Defense Logistics Agency, provide final comments on the unresolved recommendations by August 30, 1993. See the "Response Requirements per Recommendation" section at the end of the finding for specific requirements for your comments. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated dates for completion of planned actions.

If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your concurrence. Recommendations and potential benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weakness highlighted in Part I.

The courtesies extended to the staff during the audit are appreciated. If you have any questions concerning this audit, please contact Mr. James B. Helfrich or Mr. Danzel M. Hickle, Jr. at (614)337-8009. Copies of the final report will be distributed to the activities listed in Appendix F.



Edward R. Jones
Deputy Assistant Inspector
General for Auditing

Office of the Inspector General, DoD

Audit Report No. 93-132
(Project No. 1LE-0021)

June 30, 1993

CONDITION AND ECONOMIC RECOVERABILITY
OF MATERIEL IN THE DISPOSAL PROCESS

EXECUTIVE SUMMARY

Introduction. Materiel that has become excess to the needs of one DoD Component is turned in to the Defense Reutilization and Marketing Service (DRMS) for disposal. Frequently, the turned in materiel is issued by DRMS to another DoD Component for reutilization. Much of the materiel that is provided to and issued by (withdrawn from) DRMS has been assigned condition codes that indicate that the materiel is unserviceable. From January 1990 through February 1991, DRMS issued an estimated \$665 million of materiel in transactions with a full range of condition codes, valued at \$500 or more, to DoD Components for reutilization.

Objectives. The audit objectives were to determine whether the proper condition codes were being assigned to excess materiel turned in to DRMS for screening by DoD activities, whether DoD activities were recovering materiel from the disposal process when recovery was economical or appropriate, and whether the materiel was effectively controlled and accounted for by DRMS and the activities that withdrew the materiel for reutilization. The audit also evaluated applicable internal controls.

Audit Results. DoD activities assigned inappropriate condition codes to materiel turned in to DRMS and records did not indicate that inappropriate condition codes were challenged by DRMS. Materiel was withdrawn for reutilization by DoD activities and contractors without a valid need and DoD activities did not maintain adequate control and accountability over the materiel after withdrawal. Of the estimated \$655 million of materiel withdrawn from DRMS between January 1990 and February 1991, we projected that the condition codes assigned to \$48.5 million of \$278 million of condemned materiel were inaccurate, about \$484 million of materiel could not be physically traced or was not adequately accounted for, and \$24.5 million of materiel had been withdrawn without a valid requirement.

Internal Controls. Internal controls were not effective to ensure that materiel was properly condition coded and adequately safeguarded against fraud, waste, loss, unauthorized use, and misappropriation. Based on our findings, we referred 10 cases of suspected misappropriation of Government property to DoD investigative activities. See Part II for details on these weaknesses and Part I for a description of the controls assessed.

Potential Benefits of Audit. This audit report identifies no quantifiable potential monetary benefits. A summary of the other benefits resulting from this audit are in Appendix D.

Summary of Recommendations. We recommended that the Military Departments and Defense Logistics Agency (DLA) document their justifications for condemning materiel and that condition code challenges be documented and retained by DRMS. We recommended that the Assistant Secretary of Defense (Production and Logistics) [ASD(P&L)] revise guidance to require that requisitions by contractors contain authorizing signature of a Government representative. We also recommended that controls be revised or established by the Office of the Secretary of Defense and the Army and the Navy to ensure that materiel is withdrawn only by authorized personnel for authorized purposes and is adequately accounted for by reutilizing activities.

Management Comments. The Air Force agreed with the intent of having the basis for condemning materiel documented and submitted with the materiel to the DRMOs at turn in, while the other Military Departments disagreed stating that the time required to perform the documentation would not provide added value. The DLA stated that its activities are already documenting the condition code of materiel turn-ins; however, disagreed with documenting the basis for condition coding by DRMO personnel, stating that the receiving process at the DRMOs would be impeded. The ASD(P&L) agreed that requisitions from contractors should contain the signature of the Government representative, but did not agree to revise guidance. The Army disagreed that added controls over materiel withdrawn from DRMOs were needed, stating that existing regulations are adequate. The Navy partially agreed with the recommendation, stating that responsibility for policy and procedures is now assigned to the Defense Finance and Accounting Service (DFAS). The Navy also stated it would request that the DoD directive be amended to require periodic review and validation of the status of materiel withdrawn from the DRMOs.

The full discussion of management's comments is in Part II and the complete text of management's comments is in Part IV of the report.

Audit Response. We consider the Air Force's comments to be responsive, the Navy's and DLA's comments to be partially responsive, and the ASD(P&L)'s and Army's comments to be nonresponsive to our recommendations. Based on the Navy's comments, we renumbered and revised one recommendation. We request comments from ASD(P&L), Army, Navy, Air Force, DFAS, and the DLA by August 30, 1993.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate at (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

DoD materiel that is no longer economical to retain, exceeds the retention limits of the owning organization, and is not needed by the wholesale inventory management activity is considered excess. Based on the guidance in DoD Directive 4100.37, "Retention and Transfer of Material Assets," the excess materiel should be processed for reutilization, donation, or sale through the Defense Reutilization and Marketing Service (DRMS), a Defense Logistics Agency component. DoD's policy is to dispose of excess materiel in a manner that ensures maximum use to satisfy valid requirements, permits authorized donations, obtains optimum monetary return to the Government for materiel sold, and minimizes the need to abandon or destroy materiel.

DoD Directive 4160.21, "DoD Personal Property Utilization and Disposal Program," provides the policy for the use and disposal of DoD materiel. Each DoD activity that requests materiel from DRMS is required to limit its acquisition to authorized types and quantities and to establish controls to ensure that the materiel is obtained only for approved purposes. From January 1990 through February 1991, DRMS issued materiel valued at an estimated \$665 million of materiel in transactions valued at \$500 or more.

The major objective of the DoD reutilization program is to make excess materiel available to DoD activities for reuse to preclude concurrent procurement and disposal, preclude the repair or overhaul of unserviceable assets when serviceable assets are available for redistribution, and fill other requirements as authorized by DoD Directive 4100.37. DoD Manual 4160.21-M, "Defense Utilization and Disposal Manual," stated that DoD activities should requisition materiel from DRMS only to fill valid requirements and should establish adequate control and accountability over the materiel.

A primary factor in a DoD activity's decision to reuse materiel from DRMS is the item's actual physical condition, which is intended to be indicated by the Federal condition code (FCC) assigned to the materiel. The FCC is a two-position code consisting of a supply condition code (SCC) assigned by the activity that turned in the materiel to the DRMS, and a disposal condition code (DCC) assigned by the Defense Reutilization and Marketing Office (DRMO) that received the turned in materiel. (Definitions of condition codes are in Appendix A).

Objectives

The audit objectives were to determine whether the proper condition codes were being assigned to excess materiel turned in to DRMS, whether DoD activities were recovering materiel from the disposal process when recovery was economical or appropriate, and whether the materiel was effectively controlled and accounted for by DRMS and the activities that withdrew the materiel for reutilization. The audit also evaluated the effectiveness of internal controls to ensure that applicable policies were enforced.

Scope

To accomplish our audit objectives, we reviewed issue documents processed by the DRMOs from January 1, 1990, through February 28, 1991, and corresponding turn-in transactions, registers, and records of accountability at requisitioning activities. We also reviewed records of accountability for materiel on hand at 15 DRMOs between March 3, 1991, and November 29, 1991. We ascertained the presence and the physical condition of the materiel withdrawn from the DRMOs for reutilization by visiting or contacting the requisitioning activities.

We considered materiel to be adequately controlled and accounted for if the requisitioning activities' records provided an audit trail so that materiel could be physically located and accountability traced from receipt to ultimate disposal or destruction. To evaluate the condition code accuracy, we physically observed the materiel, when possible, and considered how the materiel was being used.

We selected and reviewed two statistical samples and one judgmental sample of excess materiel to provide a basis for our conclusions. Appendix B discusses the sampling plan and results of audit. Our statistical samples consisted of 820 issue transactions, valued at \$25.6 million, made by 15 DRMOs between January 1, 1990, and February 28, 1991 (materiel value is based on DRMS recorded value). We did not evaluate the validity of the recorded materiel value shown in the DRMS records. We concentrated on unserviceable and condemned materiel (SCC "H") that had been issued to DoD activities for reuse. Of the 820 issues reviewed, 731 valued at \$21.9 million were for materiel in SCC "H".

The statistical samples were used to select items to determine whether assigned FCCs were accurate, whether the recoveries were economical or appropriate, and whether the materiel was effectively controlled and accounted for by the activities that withdrew it for reutilization. We used a judgmental sample of 388 turn-in documents to determine the accuracy of the condition code of materiel still on hand at the DRMOs and whether the

materiel was effectively controlled and accounted for by the DRMOs. We found no significant deficiencies in the assigned condition codes in the judgemental sample. The audit also evaluated internal controls to ensure that DoD Components were enforcing applicable policies.

This economy and efficiency audit was conducted at the organizations listed in Appendix E, from March through November 1991. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary.

The Quantitative Methods Division of our Audit Planning and Technical Support Directorate provided assistance in the selection and analysis of the results of our statistical samples.

Internal Controls

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not established or effective to ensure that materiel in the DRMOs had correct condition codes or that DoD activities adequately accounted for materiel withdrawn from the DRMOs, which weakens the protection against fraud, waste, loss, and mismanagement of property. Recommendations 1., 2., 3., and 4. in this report, if implemented, will correct the weaknesses. Monetary benefits associated with internal control deficiencies were not readily identifiable and projectable with any reasonable degree of reliability. Details are provided in Part II of this report. Appendix D summarizes the other benefits resulting from this audit.

A copy of our final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of Defense, Army, Navy, Air Force, and Defense Logistics Agency.

Prior Audits and Other Studies

In May 1986, the DoD Logistics Systems Analysis Office issued the "DoD Disposal Program Improvement Study." The objectives of the study included determining the reasons for and degree to which problems with accurate assignment of SCCs and the accountability of property obtained from disposal by DoD Components existed in the DoD disposal program. The study team focused its analysis on those items coded as unserviceable and condemned materiel (SCC "H") because, at the time of the study, the House Appropriations Committee had concerns relating to DoD Components' reutilization of condemned materiel.

The study team found no practical means for it to evaluate the accuracy of the condition codes assigned because many of the items were no longer at the DRMOs. The study recommended that the Deputy Assistant Secretary of Defense (Logistics) and the Assistant Secretary of Defense (Comptroller), now the Comptroller of the Department of Defense, jointly evaluate DoD accountability procedures and incorporate a definition for accountable record, supply accountable officer, and the type of materiel that must be accounted for. The study did not specify where the definitions should be incorporated. The study also recommended that DRMS standardize the "Letters of Authorization" required to obtain materiel from disposal.

No action had been taken on the condition coding recommendation. Action had been taken on the accountability recommendation to define supply accountable officer; however, no definition had been established for an accountable record or the type of materiel that must be accounted for. DRMS did issue guidance to standardize the "Letter of Authorization" required to obtain materiel from the DRMOs.

The Air Force Audit Agency conducted an audit of assets withdrawn by Air Force activities from the DRMOs and issued a report, "Management of Assets Withdrawn from the Defense Reutilization and Marketing Service," Project 91061017, dated January 28, 1992. The auditors found that Air Force organizations were not properly managing or controlling assets withdrawn from DRMS. The report stated that accountability had not been established for 74 percent of the withdrawals included in the audit, and 63 percent of those assets could not be located. It was also reported that Air Force organizations withdrew more than \$37 million in property that was not required or authorized and that Air Force Morale, Welfare, and Recreation activities were not properly managing assets withdrawn from DRMS. The report recommended changing Air Force policy and procedures to establish accountability for all materiel, including unserviceable materiel, withdrawn from DRMS. The report also recommended that controls be established that would require a valid, documented requirement and authorization for all DRMS withdrawals by the Air Force, including unserviceable and expendable materiel. The Air Force concurred with the recommendations and said it either had completed corrective action or had established a plan that will adequately correct the problems.

PART II - FINDING AND RECOMMENDATIONS

CONDITION CODES AND ACCOUNTABILITY

DoD activities assigned inappropriate condition codes to materiel turned in to DRMS for reutilization, donation, or sale; the DRMOs' records did not indicate that the DRMOs had reviewed and challenged inappropriate condition codes for turned in materiel; and DoD-related personnel and activities withdrew materiel, much miscoded as "condemned", from the DRMOs without a valid need and did not maintain adequate control and accountability over the materiel after withdrawal. The conditions occurred because the turn in activities did not document and provide the basis for the assignment of condition codes for materiel destined for reutilization, donation, or sale; DRMS did not require that records be maintained of condition code reviews and challenges; DoD did not require written Government approval for materiel withdrawn by contractors; and the Military Departments had neither adequate procedures nor controls to ensure that only authorized personnel withdrew materiel from DRMS to fill valid requirements and that the requisitioning activities properly accounted for the withdrawn materiel. As a result, we estimated that of the \$665 million of materiel withdrawn from DRMS by DoD activities between January 1990 and February 1991, \$48.5 million of that materiel had been inappropriately assigned SCC "H", \$24.5 million of the materiel had been withdrawn without a valid requirement, and \$482 million of the materiel withdrawn was not adequately controlled and accounted for to avoid waste, loss, and misappropriation.

DISCUSSION OF DETAILS

Issued Materiel

Between January 1, 1990, and February 28, 1991, DRMS issued for DoD activities' reutilization about \$665 million of materiel through an estimated 101,000 transactions of \$500 or more. We estimated that the assigned "H" SCC was inappropriate for 13,919 issues, valued at \$48.5 million, generally depicting the materiel in a worse condition than it actually was. Our estimate was based on a sample of 731 issues of materiel in condition code "H", valued at \$21.9 million. For at least 179 (24 percent) of the 731 issues, valued at \$2 million, inappropriate condition codes were assigned. We could not physically locate and determine the condition of 333 items (46 percent), valued at \$11.6 million, in our statistical sample, primarily because the materiel had been put to use and was not identified or because recordkeeping and accountability after DRMOs issued the materiel was inadequate. For items that we physically evaluated, the inappropriate condition codes were caused by the inappropriate

assignment of SCCs by turn-in activities, inadequate review and challenge of SCCs by the DRMOs, and improper assignment of DCCs by the DRMOs.

Supply condition codes. Of the 731 issues, turn-in activities assigned inappropriate SCCs to 179 issues of materiel valued at \$2 million. For example, a Navy activity turned in, as condemned materiel with a SCC of "H", monel metal rods valued at about \$17,000. There was no indication on the turn-in document that the metal did not conform to specifications or any other indication that would have justified the assigned condition code. The assigned SSC indicated that the materiel was not usable for its intended purpose. We talked to personnel at the Navy activity who turned in the metal rods to the DRMO and found that they had made a mistake in their condition coding. The metal rods should have been coded as serviceable condition, SCC "A". The metal rods were new and excess to the needs of the Navy activity. In this instance, although the metal rods could have been sold as scrap, another DoD activity withdrew the materiel and used it for practice welding.

The principal reasons for 65 of the 179 issues with inappropriate SCCs (80 percent of the value of the inappropriate condition codes) are shown in Table 1. The reasons for the remaining 114 issues are too varied to categorize.

Table 1. Inappropriate Condition Codes

	<u>Issues</u>	<u>\$ Value</u> (000)
Criteria used disregarded actual physical condition of the materiel	39	\$ 691
Inadequate monitoring by turn-in activities of assigned SSC "H"	12	426
SCC shown on turn-in document was not original code	8	387
Turn-in activity acknowledged errors made	<u>6</u>	<u>120</u>
Total	<u>65</u>	<u>\$1,624</u>

Reviews and challenges of supply condition codes. The DRMS Handbook, DRMS-H 4160.3, volume I, "Disposal Operating Procedures," describes the receiving procedures at the DRMOs and states, "Property will be subjected to inspection to include verification of item identity, quantity, and assigned supply condition code. Discrepancies that are disclosed before

acceptance of accountability will be resolved and corrected during the receipt process." We found no documentation at any of the 15 DRMOs visited to indicate that the DRMOs had reviewed and challenged the condition codes assigned to the materiel by the turn-in activities for any of the 179 inappropriately categorized items. For example, there was no documentation at the DRMO to indicate that the SCC "H" assigned to the monel metal rods had been reviewed and challenged. Additionally, the DCC that the DRMO assigned indicated that there was no effective inspection and verification of the item's condition. The DRMO assigned a DCC of "X" (salvage) to the monel metal rods. DRMS-H 4160.3 does not require the preparation and retention of documentation on the review and challenge of SCCs on turn-ins.

We talked with cognizant personnel at 13 DRMOs on reviews and challenges of condition codes. They generally said that they challenged a SCC only when it was obviously inaccurate. Some felt they did not have the expertise to challenge the coding of a turn-in activity. Without records of the challenge process, we could not fully evaluate the effectiveness of the receiving personnel in reviewing SCCs.

Disposal condition codes. The DRMOs assigned inappropriate DCCs to 172 of the 179 issues of "H" materiel valued at \$1.9 million. For example, the Marine Corps turned in to a DRMO 750 cartridge magazines valued at \$2,497. According to the turn-in document, the Marines assigned the magazines a SCC of "A", indicating that the items were in serviceable condition. The SCC was later changed to "H" and a DCC of "X" was assigned to the magazines by DRMS personnel. We could not determine which organization changed or authorized the SCC to be changed from "A" to "H", and no records were available at the DRMO to indicate the DRMO's challenge of the SCC. We contacted personnel at the Marine Corps unit that had turned in the magazines and they told us that the magazines were in serviceable condition when they were turned in. We then visited the Air Force activity that withdrew the magazines from the DRMO. Air Force personnel showed us examples of the magazines that they had withdrawn and told us that all seven boxes were in similar condition. The magazines they showed us were still in the original plastic wrapper, unused. Based on information from Marine Corps and Air Force personnel and our inspection of the magazines, we concluded that the SCC had been changed in error and disposal personnel had inappropriately assigned a DCC which classified the magazines as unserviceable salvage materiel when the materiel should have been coded as serviceable, unused - good condition, DCC "1".

DoD Manual 4160.21-M assigns DRMOs the responsibility for determining the DCC. Selection of the DCC is limited to allowable combinations with SCCs (see Appendix A). Receiving personnel at DRMOs do not have the necessary test equipment and expertise to ensure that a valid SCC was assigned each item,

instead they rely on visual inspection. From visual inspection, DRMO receiving personnel establish the materiel's condition as good, fair, or poor; estimate a percentage of original acquisition cost to repair materiel that is unserviceable; and assign the appropriate DCC. Estimates of repair costs and testing results are not generally obtained from the turn-in activities to provide a basis for assignment of a DCC. There is also no requirement for the DRMO to document the basis for the DCC it assigned. In most cases, the DRMOs assign an "X" as the DCC when the SCC is "H". From January 1990 through February 1991, the 15 DRMOs in our sample assigned a DCC of "X" to 80 percent of the materiel turned in on 11,918 transactions coded as SCC "H" in our sample universe. Five DRMOs assigned a DCC of "X" to 98 percent of the items in our sample universe of "H" coded materiel. The assignment of lesser quality DCC than warranted could cause less reutilization of materiel or lower dollar returns from sales.

Requirements for materiel withdrawal. We estimated that \$24.5 million (4 percent) of the \$665 million of materiel withdrawn from the DRMOs for reutilization should not have been withdrawn because the requisitioners did not have valid requirements for the materiel. We based our estimates on 820 sampled issues valued at \$25.6 million. Of the 820 issues, 51 valued at \$438,000 were for invalid requirements. For example, an Army unit withdrew from a DRMO 18 gun mounts valued at \$13,428. The 50-caliber gun mounts had been assigned a "H" SCC and turned in to the DRMO by another Army unit in the same geographic area. The unit that withdrew the mounts was authorized six 50-caliber machine guns and each gun already had a mount. On their requisition for the mounts the unit personnel had stated, "This property is required and is authorized by applicable Military Service defense regulations ref. free issue." The unit did not have documentation to support the requirement or authorization.

In another example, a naval shipyard withdrew eight Air Force flyer's jackets valued at \$1,016, and 18 Air Force extreme cold weather parkas valued at \$1,259 for their employees to wear while working in the shipyard. The requisitioner told us that the jackets were issued, without record, to supervisors and the parkas were issued, without record, to personnel working in the shipyard. Naval personnel could not identify and we could not determine who actually had the jackets. The requisitions for jackets and parkas were not required to be and were not approved by an accountable officer at the shipyard.

DoD contractors can obtain excess materiel from the DRMS through their DoD contracting officers. DoD Manual 4160.21-M requires that requisitions be approved by the contracting officer cognizant of the materiel; the materiel must be authorized by the DoD contract(s) for which the materiel will be used; all materiel

requisitioned must be committed for use on such contract(s); and the contracting officer cognizant of the identified contract(s) must approve the use of the requisitioned materiel for such contract(s). Each requisition (DD Form 1348-1) must contain the certification "For Use Under Contract(s) No. _____, (Attachment 3, category 2, chapter XII, DoD 4160.21-M)." The certification is to be signed by an authorized official of the DoD contractor.

We identified a DoD contractor that was able to process 56 requisitions for materiel with DRMS and obtain assets valued in excess of \$1 million without getting the DoD contracting officer's approval. The DoD contracting officer told us that he had authorized only one item, valued at \$31,670, to be requisitioned. The contractor was able to process requisitions in excess of his authorization because the requisitions did not require authentication by the authorizing DoD official.

DoD activities can remove materiel directly from DRMOs, provided the activity has a letter of authorization on file at the DRMO. DoD manual 4160.21-M requires that the accountable officer for the activity submit a letter listing the individuals authorized to authenticate requisitions for direct removal of materiel. We identified several DoD employees that misrepresented their authority and authorized themselves to authenticate requisitions for direct removal of materiel from the DRMO. For example, one employee was able to process and obtain materiel valued at about \$65,600 without authorization from the activity's accountable officer. This employee was able to process invalid requisitions because the DRMOs were not required to, and did not, validate the authorization letters with responsible personnel at the submitting DoD activities. Without adequate control the risk is increased for misappropriation of materiel.

The principal cause for 47 requisitions for SCC "H" materiel valued at \$260,000 being withdrawn from DRMS without a valid requirement was inadequate control and management oversight of requisitioning activities through periodic reviews. Because the materiel is "free issue" and Military Department regulations do not generally require stringent accounting for SCC "H" materiel withdrawn from DRMS, we believe that supervisors were not scrutinizing the requests for materiel as rigorously as they would have if their activities were paying for the materiel and the Military Department regulations required periodic oversight reviews. Throughout this audit, numerous personnel expressed the opinion that SCC "H" materiel was just going to be thrown away or sold for a few cents on the dollar, so why not use it for whatever you could.

As a result of weak controls on the validity of requirements and authorizations to justify withdrawal of materiel from DRMS, we have referred seven cases to criminal investigators that involved

the possible misappropriation or theft of Government property (see Appendix C). For example, one Army sergeant obtained Marine Corps noncommissioned officer swords, valued at \$1,700, from a DRMO and was giving them away as gifts. (Army investigators could not demonstrate criminal intent by the sergeant so no formal criminal charges were brought against him.) The sergeant, who was not authorized to requisition materiel from the DRMO, had a second authorized party obtain the materiel for him. In another case, a sailor, who was authorized to requisition materiel from the DRMO, withdrew flight jackets and tools, valued at \$1,300, from the DRMO for nonofficial use. Naval investigators confirmed the misappropriation of materiel and a general court martial has been ordered for the sailor. The remaining five cases were ongoing as of June 1993.

Accountability for property. We estimated that \$482 million (72 percent) of the \$665 million of materiel withdrawn for reutilization was not adequately controlled and accounted for by the recipients. We statistically sampled 820 items, valued at \$25.6 million, to determine if the property issued to DoD activities by DRMOs was adequately controlled and properly accounted for. Control was inadequate for 70 percent of the value of the sample items reviewed. We also judgmentally sampled 388 transactions, valued at \$1,525,325, relating to materiel physically on hand and on the records of the DRMOs and concluded that accountability was adequate for \$1,511,332 (99 percent) of the judgmental sample. The results of our review of the 820 statistically sampled items are shown in Table 2.

Table 2. Accountability for Materiel

<u>Requisitioner</u>	<u>Sample</u>		<u>Inadequate Control and Accountability</u>			
	<u>No.</u>	<u>Value</u> (Thousands)	<u>No.</u>	<u>Percent</u>	<u>Value</u> (Thousands)	<u>Percent</u>
Army	252	\$ 4,725	152	60	\$ 3,565	75
Navy ¹	238	10,568	128	54	7,349	70
Air Force	264	9,666	145	55	6,878	71
Other DoD	63	575	37	59	165	29
Non-DoD	<u>3</u>	<u>28</u>	<u>0</u>		<u>0</u>	
	<u>820</u>	<u>\$25,562</u> ²	<u>462</u>		<u>\$17,957</u> ³	

¹ Includes Marine Corps.

² Includes "H" condition materiel valued at \$21.9 million and "A" through "G" condition materiel valued at \$3.7 million.

³ Includes "H" condition materiel valued at \$15.2 million and "A" through "G" condition materiel valued at \$2.7 million.

The requisitioners did not establish adequate controls and accountability for \$17.9 million (70 percent) of the \$25.6 million in assets we reviewed. The causes for the materiel not being adequately accounted for varied by Military Department.

Army. Army units did not adequately account for \$3.6 million of materiel issued to them, of which \$2.9 million was withdrawn for use as targets, training aids, or other than the original intended purpose of the materiel. Materiel was not adequately accounted for primarily because Army Regulation 735-5, "Policy and Procedures for Property Accounting" did not require requisitioning activities to account for materiel withdrawn as training aids or targets, regardless of its condition code or value. The requisitioning activity was allowed to treat vehicles and other normally accountable materiel as minor expendable materiel after they were issued; and no formal accounting was required to show the final disposition of potentially usable materiel.

For example, a cargo truck, M151A2, valued in the disposal system at \$22,000, was issued to an Army activity. The justification noted on the requisition was "For other than intended purposes." Personnel at the requisitioning activity told us that the truck was obtained for use as a target. Personnel at the requisitioning activity could not tell us if the truck had been placed on the range or if it was still in their storage lot. The Army activity was storing about 300 vehicles in a lot to use as targets. The activity did not have serial number records to accurately account for vehicles in the lot or for vehicles placed on the range. The whereabouts or disposition of the sampled truck could not be readily determined.

The Army also did not have procedures to account for materiel withdrawn from DRMS for cannibalization by other than an authorized cannibalization point. About 4 percent of the items without adequate accountability in the Army were withdrawn for cannibalization by other than an authorized Army cannibalization point.

Navy. Navy activities did not adequately account for \$7.6 million of materiel of which \$6.4 million related to aircraft parts. The Navy Comptroller Manual, volume III, "Appropriation, Cost, and Property Accounting," did not include procedures to account for withdrawals of SCC "H" materiel. As a result, a naval air depot requisitioned from DRMS 1,136 secondary exhaust nozzle flaps (national stock number [NSN] 2840-01-130-2780), valued at about \$2 million, for the F404-GE-400 aircraft engine. The flaps had been turned in to DRMS as SCC "H" materiel. We contacted cognizant Navy personnel at the depot, who had requisitioned the flaps, to account for them. Depot personnel could only report that the materiel was no longer at the depot. They did not maintain a record of receipt or the

disposition of materiel obtained from DRMS. An additional \$89,000 (1 percent) in materiel was not adequately accounted for at other activities because the Navy Comptroller Manual did not provide policy and procedures to account for property withdrawn for cannibalization.

Air Force. Air Force activities did not adequately account for 145 issues valued at \$6.9 million. The inadequacy occurred primarily because Air Force Manual 67-1, "USAF Supply Manual"; and Air Force policy did not require that condemned materiel requisitioned for use as targets or training aids be accounted for. We are not making any recommendations to the Air Force to correct inadequate accounting problems because of management actions planned in response to an Air Force Audit Agency audit report.

Existing policy and procedures. Some Army and Navy activities did not adequately account for materiel because of noncompliance with existing Military Department policies and procedures. From our sample, Army activities did not adequately account for four issues of materiel valued at \$149,000, and Navy activities did not adequately account for 11 issues valued at \$253,000 because of noncompliance with existing Military Department policies and procedures. For example, an Army activity withdrew 63 body armor jackets, valued at \$15,845, but did not comply with Army Regulation 735-5 which required that the materiel be placed on the unit's property book. A Navy activity withdrew a utility truck (NSN 2320-01-264-4819), valued at \$22,128, but did not record the vehicle on its plant property records as required by the Navy Comptroller Manual.

Based on inadequate accountability, we referred to criminal investigators three cases involving possible misappropriation or theft of Government property. For example, an Army activity requisitioned from a DRMO 100 gortex jackets valued at \$12,000. The noncommissioned officer in charge of supply stated that since this materiel was a "free issue" from the DRMO, it did not have to be accounted for. The noncommissioned officer stated that the materiel was issued to troops for a training exercise, but no records or hand receipts were available to substantiate issuance to the troops. The activity did not have the materiel on hand at the time of our audit and could not account for its disposition. The criminal investigations were ongoing as of June 1993.

Summary

Improvements in assigning accurate supply and disposal condition codes to materiel turned in to DRMS, particularly in minimizing the use of "H" and "X" codes, should lead to greater reutilization and proceeds from sales of materiel in the DRMS. The controls over issue of property from disposal and

accountability for the property after it has been issued by DRMS need to be strengthened to help reduce the risk of fraud, waste, and loss of DoD excess materiel.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

1. We recommend that the Commander, Army Materiel Command; Commander, Naval Supply Systems Command, Commander; Air Force Materiel Command; and the Director, Defense Logistics Agency issue guidance to require activities that turn in materiel to document and provide to the Defense Reutilization and Marketing Office (DRMO) the basis for condemning materiel with an extended value of \$1,000 or more along with any related repair estimate performed that support the decision to condemn repairable items.

Army comments. The Director of Supply and Maintenance, Office of the Deputy Chief of Staff for Logistics, nonconcurrent with Recommendation 1., stating that the data will not add value to the process. The Director said that materiel turned in below the wholesale level is already subjected to a "two-man check." Quality inspectors classify materiel condemned at Army repair depots. In the Director's opinion, DRMO personnel do not have the technical expertise required to evaluate either the basis for condemning materiel or the cost estimate to repair the materiel. The Director does not see the need to document repair estimates because many items are coded as not repairable based on the maintenance concept of the end item. Development of an estimated repair cost on an item by item basis would subvert decisions made for total weapons system management and serve no purpose. Development of a cost estimate for the turned in materiel would expend shrinking funds on materiel that the Army no longer needs. The complete text of the Army's response is in Part IV.

Audit response. We consider the Army's comments to be nonresponsive. We agree that it could be costly for the Army to perform added work to generate repair estimates for DRMO only. However, the intent of Recommendation 1. is to assure that the condemnations were warranted and substantiated and take advantage of the evaluations, analyses, and estimates that Army personnel should already be performing in condemning materiel. The audit indicated that the Army had condemned materiel that did not warrant the classification. Also, having the documented justification for condemning materiel at the DRMO makes the information available for use by other DoD organizations screening materiel for reutilization. Unless the documentation is turned in with the materiel to the DRMO, the information is lost and DoD does not capitalize on the work already performed to evaluate the materiel's condition. We have modified the wording in the recommendation to exempt low value materiel. We believe that Recommendation 1. is valid and would improve not only the accuracy of the condition coding but would save resources at DoD organizations reutilizing materiel for DRMOs. With the

evaluations, analysis, and estimates on hand at the DRMO, less testing and inspection should be required by DoD activities wishing to reutilize the materiel, to determine if the materiel meets their needs. We request that the Army reconsider its position and provide a response to this final report.

Navy comments. The Deputy Assistant Secretary of the Navy, Office of the Assistant Secretary (Research, Development and Acquisition), nonconcurred with Recommendation 1., stating that decisions to repair or not repair equipment are made using both economic and noneconomic evaluations. These decisions are made by the hardware systems command and not the supply system. Although a general idea of the repair cost may be known for an item, there is no automated means of transmitting this information to a DRMO. Additionally, it is not apparent how this information would assist the DRMO in garnering a greater return on the dollar. The Deputy Assistant Secretary said that the repair estimate is not a good indicator to determine if the correct condition code was used by the turn-in activity, because many part deficiencies may not be visible. The complete text of the Navy's response is in Part IV.

Audit response. We consider the Navy's response to be nonresponsive. We agree that repairable items may be managed as nonrepairables because of economic and noneconomic analysis and many deficiencies cannot be identified by visual inspection alone. Because the Navy can base the supply condition code on factors other than the items' actual physical condition (the Navy refers to this as noneconomic evaluations), we continue to believe that the cause for condemning materiel should be provided to the DRMOs. The intent of Recommendation 1. is to assure that condemnations were warranted and substantiated and take advantage of the evaluations, analysis and estimates performed by Navy personnel at the DRMO. Unless the evaluations, analyses, and estimates that support condemning materiel are turned in to disposal with the materiel, the value of the information is lost. In the disposal process the information would assist not only DRMO receiving personnel who rely on visual inspection, but other DoD activities who screen materiel for possible reutilization. We have modified the wording in the recommendation to exempt low value materiel. We request that the Navy reconsider its position and provide a response to this final report.

Air Force comments. The Deputy Chief of Staff for Logistics concurred with the intent of Recommendation 1., and stated that the Air Force's policy already requires turn-in activities to estimate repair costs. If the decision is made to condemn property, the turn-in activity is required to document the reason on DD Forms 1577 and 1572 and turn in the forms with the property to the DRMO. The Deputy Chief of Staff sees no purpose in including an estimated repair cost on the DD Form 1577. Statements such as repairs exceeds 75 percent of unit cost, shelf

life expired, etc. should suffice. The Commander, Air Force Materiel Command, was to reemphasize the Air Force's policy on documenting the reason for condemning property, and distribute the policy to all Air Force activities by May 1, 1993. However, we were told by Air Force personnel that implementation of the stated action was delayed until this final report is issued. The Air Force will also revise all applicable procedures and technical orders to make the condemnation reason a mandatory entry on documentation for condemning items being turned in to the DRMO. The complete text of the Air Force's response is in Part IV.

Audit response. The comments and proposed alternative actions provided by the Air Force are considered responsive to the intent of Recommendation 1. However, the Air Force did not specify the procedures and technical orders it would revise. We request that the Air Force identify those documents in its response to this final report.

Defense Logistics Agency (DLA) comments. The Chief, Internal Review Division, Office of the Comptroller, partially concurred with Recommendation 1., stating that DLA turn-in activities are required to document property condition as well as an approximate cost of repairs. The Chief, Internal Review, stated that during the next scheduled staff assistance visit with the DRMS a determination will be made on the need for additional procedural enforcement. The complete text of DLA's response is in Part IV.

Audit response. We consider DLA's comments to be partially responsive. We believe that existing procedures are not sufficient. In several instances, materiel that DLA had turned in to the DRMOs had been assigned incorrect condition codes. We request that DLA reconsider its position and provide a response to this final report.

2. We recommend that the Commander, Defense Reutilization and Marketing Service (DRMS), revise DRMS-H 4160.3 to require that:

a. DRMOs document their reviews and challenges of supply condition codes of turned in materiel and the resulting code changes made. The documentation should include the name, title, and organization of the individual changing the code and reason for changing the supply condition code.

b. DRMOs document the basis for assigned disposal condition codes for materiel valued at \$1,000 or more.

c. DRMOs return a copy of the accepted letter of authorization to the accountable officer of the submitting activity, indicating that the DRMO will recognize the named individual(s) as authorized to withdraw materiel from the DRMO.

DLA comments. The Chief, Internal Review, concurred with Recommendations 2.a. and 2.c., stating that DRMS will incorporate the recommended changes in DRMS-H 4160.3 with estimated completion dates of April 15, 1993, and June 30, 1993, respectively. DLA later changed the implementation date for Recommendation 2.a. to July 30, 1993. The Chief, Internal Review, nonconcurred with Recommendation 2.b., stating that to document the basis for assigned disposal codes for materiel valued at \$1,000 or more would impede the receiving program and add substantial cost with no documented benefit. The complete text of DLA's response is in Part IV.

Audit Response. DLA's proposed actions for Recommendations 2.a. and 2.c. satisfy the intent of the recommendations. We consider DLA's comments on Recommendation 2.b. to be nonresponsive. We believe that existing procedures are not sufficient to produce accurate DCCs at the DRMOs. Although we could not determine the amount of savings with any degree of reliability associated with Recommendation 2.b., accurate condition coding can save DoD money by helping provide a solid information base for customers to use in making reutilization decisions. We continue to believe that requiring the basis for disposal coding to be documented at the DRMOs would result in a more accurate DCC. We request that DLA reconsider its position on Recommendation 2.b. and provide a response to this final report.

3. We recommend that the Assistant Secretary of Defense (Production and Logistics) revise DoD Manual 4160.21-M to require that requisitions (DD Form 1348-1) by contractors contain the signature and title of the Government representative authorizing the withdrawal.

Assistant Secretary of Defense (Production and Logistics) comments. The Acting Deputy Assistant Secretary (Logistics) concurred with Recommendation 3., but stated that DoD Manual 4160.21-M already requires the contracting officer to sign DD Form 1348-1, therefore, no action would be required. The full text of the Acting Deputy Assistant Secretary (Logistics) comments is in Part IV.

Audit response. The Assistant Secretary of Defense (Production and Logistics)'s comments are not responsive to Recommendation 3. We believe that action is needed. DoD Manual 4160.21-M does not specifically require the contracting officer to sign the requisition. In the absence of written approval by the contracting officer, any DoD contractor could obtain material from DRMS. The present process allowed unauthorized withdrawal of materiel. For example, as stated in the report, one contractor was able to obtain assets valued in excess of \$1 million because of inadequate controls. Some

guidance needs to be issued to assure that contracting officers have reviewed and approved contractor requisitions. Therefore, we request that the Assistant Secretary of Defense (Production and Logistics) reevaluate our recommendation and provide a response to this final report.

4. We recommend that the U.S. Army Deputy Chief of Staff for Logistics revise Army Regulation 735-5, and the Commander, Naval Supply Systems Command, revise Navy policy and procedures. The respective regulation and policy and procedures should include controls to ensure that only authorized personnel withdraw materiel from the DRMS for valid requirements. The controls should provide for periodic management oversight reviews of materiel withdrawn from the DRMS.

5. We recommend that the U.S. Army Deputy Chief of Staff for Logistics revise Army Regulation 735-5 and the Director, Defense Finance and Accounting Service - Cleveland Center, revise the Navy Comptroller Manual, volume III. The respective regulation and manual should include criteria for accounting for property withdrawn from the DRMS to include materiel to be used for cannibalization, training aids, or targets and require requisitioning activities to establish accountability and controls over withdrawn materiel (including unserviceable assets).

Army comments. The Director of Supply and Maintenance nonconcurred with Recommendations 4.a. and 4.b. of the draft report, (renumbered Recommendations 4. and 5. in this final report) stating that Army Regulation 710-2 already requires that only authorized personnel withdraw materiel from DRMS for valid requirements. The Director also stated that DoD Manual 4160.21-M requires requisitioners to identify themselves with a current identification card or account number, and beginning April 1, 1993, they must present a valid fund code to cover the reutilization fee. The controls are considered adequate. Additionally, Army Regulation 735-5 requires that all property must be accounted for, regardless of source, unless Headquarters, Department of the Army, authorizes a waiver or deviation. The complete text of the Army's response is in Part IV.

Audit response. We consider the Army's comments to Recommendations 4.a. and 4.b. of the draft report to be nonresponsive. We agree that the Army regulations and DoD Manual are useful in preventing unauthorized withdrawals from the DRMS; however, as discussed in the report, controls are not adequate. Additionally, the comments did not provide specific information on management oversight reviews of materiel withdrawn from the DRMS or accounting for materiel withdrawn for cannibalization, training aids, or targets. Further, the Army regulations do not address the specific issues in the renumbered Recommendations 4.

and 5. We request that the Army reconsider its position and provide comments to the renumbered Recommendations 4. and 5. in response to this final report.

Navy comments. The Deputy Assistant Secretary concurred with Recommendation 4.a. of the draft report, stating that there should be published controls to ensure that only authorized personnel withdraw materiel from the DRMS for valid requirements. However, the Deputy Assistant Secretary believes the requirement should not be published in the Navy Comptroller manual, as stated in the draft report recommendation. The Naval Supply Systems Command assumed responsibility for Recommendation 4.a. of the draft report. The Deputy Assistant Secretary proposed the following alternative to our recommendation. At the next disposal manual review, he will recommend that DoD Manual 4160.21-M be changed to require accountable officers to establish periodic reviews of the status of materiel withdrawn from DRMOs and that the requirement be validated. Completion is expected by June 30, 1993.

The Deputy Assistant Secretary partially concurred with Recommendation 4.b. of the draft report, stating that responsibility for the policy and procedures contained in Navy Comptroller manuals is now assigned to the Defense Finance and Accounting Service - Cleveland Center. Materiel in the custody of users outside the scope of the Navy Comptroller manuals would have to be addressed in other applicable publications or directives. The complete text of the Navy's response is in Part IV.

Audit response. The Navy's response to Recommendation 4.a. (renumbered Recommendation 4. in this final report) and its proposed alternative action are considered partially responsive. If the Navy is successful in having DoD Manual 4160.21-M changed, the intent of Recommendation 4.a. would be met. Based on the Navy's comments, we renumbered, revised and redirected our recommendation from the Navy Comptroller to the Naval Supply Systems Command. We request that the Navy provide comments on the renumbered and revised Recommendation 4.

We consider the Navy's response to Recommendation 4.b. (renumbered Recommendation 5. in this final report) partially responsive. The Navy did not provide specific information on changing the Navy Comptroller manual, now assigned to the Defense Finance and Accounting Service, or addressing materiel in the custody of Navy users outside the scope of the Navy Comptroller manual. Based on the Navy's comments, we renumbered, modified and redirected the recommendation to the Director, Defense Finance and Accounting Service - Cleveland Center. We request that the Director, Defense Finance and Accounting Service - Cleveland Center, provide comments on the renumbered and revised Recommendation 5.

RESPONSE REQUIREMENTS PER RECOMMENDATION

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover</u>			<u>Related Issues*</u>
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	
1.	Army	X	X	X	IC
	Navy	X	X	X	IC
	Air Force		X	X	IC
	DLA	X	X	X	IC
2.a.	DLA			X	
2.b.	DLA	X	X	X	IC
2.c.	DLA			X	
3.	ASD(P&L)	X	X	X	IC
4.	Army	X	X	X	IC
	Navy		X	X	IC
5.	Army	X	X	X	IC
	Defense Finance and Accounting Service				
		X	X	X	IC

* IC=internal control weaknesses

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PART III - ADDITIONAL INFORMATION

APPENDIX A - Condition Codes

APPENDIX B - Statistical Sampling Plan and Results

APPENDIX C - Referrals for Criminal Investigation

APPENDIX D - Summary of Potential Benefits Resulting from Audit

APPENDIX E - Organizations Visited or Contacted

APPENDIX F - Report Distribution

APPENDIX A: CONDITION CODES

The FCC is composed of two characters, an alphabetic SCC and an alpha/numeric DCC.

SCCs

<u>Code</u>	<u>Title</u>	<u>Definition</u>
A	<u>Serviceable</u> (issuable without qualification)	New, used, repaired, or reconditioned materiel which is serviceable and issuable to all customers without limitation or restriction. Includes materiel with more than 6 months shelf life remaining.
B	<u>Serviceable</u> (issuable with qualification)	New, used, repaired, or reconditioned materiel which is serviceable and issuable for its intended purpose, but which is restricted from issue to specific units, activities, or geographical areas by reason of its limited usefulness or short service life expectancy. It includes materiel with 3 through 6 months shelf life remaining.
C	<u>Serviceable</u> (priority issue)	Items which are serviceable and issuable to selected customers, but which must be issued before condition code A and B materiel to avoid loss or as a usable asset. It includes materiel with less than 3 months shelf life remaining.
D	<u>Serviceable</u> (test and modification)	This is serviceable materiel which requires test alterations, modifications, conversions, or disassembly. This does not include items which must be inspected or tested immediately before issuance.

APPENDIX A: CONDITION CODES (cont'd)

SCCs (cont'd)

<u>Code</u>	<u>Title</u>	<u>Definition</u>
E	<u>Unserviceable</u> (limited restoration)	Materiel which involves only limited expense or effort to restore to serviceable condition and which is accomplished in the storage activity where the stock is located.
F	<u>Unserviceable</u> (repairable)	Economically repairable materiel which requires repair, overhaul, or reconditioning. It includes repairable items which are radioactively contaminated.
G	<u>Unserviceable</u> (incomplete)	Materiel requiring additional parts or components to complete the end item before issuance.
H	<u>Unserviceable</u> (condemned)	Materiel that has been determined to be unserviceable and does not meet repair criteria. It includes condemned items which are radioactively contaminated.
S	<u>Unserviceable</u> (scrap)	Materiel that has no value except its basic material content.

APPENDIX A: CONDITION CODES (cont'd)

DCCs

<u>Code</u>	<u>Title</u>	<u>Definition</u>
1	Unused - good	Unused property that is usable without repairs and identical or interchangeable with new items from normal supply source.
2	Unused - fair	Unused property that is usable without repairs, but is deteriorated or damaged to the extent that utility is somewhat impaired.
3	Unused - poor	Unused property that is usable without repairs, but is considerably deteriorated or damaged. Enough utility remains to classify the property better than salvage.
4	Used - good	Used property that is usable without repairs and most of its useful life remains.
5	Used - fair	This is used property that is usable without repairs, but is somewhat worn or deteriorated and may soon require repairs.
6	Used - poor	This is used property that may be used without repairs, but is considerably worn or deteriorated to the degree that remaining utility is limited or major repairs will soon be required.
7	Repairs required - good	Required repairs are minor and should not exceed 15 percent of original acquisition cost.*

* Percentage of repairs is determined by dividing the cost of repairing the item to a satisfactory operating condition by the original acquisition cost of a new item.

APPENDIX A: CONDITION CODES (cont'd)

DCCs (cont'd)

<u>Code</u>	<u>Title</u>	<u>Definition</u>
8	Repairs required - fair	Required repairs are considerable and are estimated to range from 16 percent to 40 percent of original acquisition cost.*
9	Repairs required - poor	Required repairs are major because the property is badly damaged, worn, or deteriorated; and they are estimated to range from 41 percent to 65 percent of original acquisition cost.*
X	Salvage	Property has some value in excess of its basic material content, but repair or rehabilitation to use for the originally intended purpose is clearly impractical. Repair for any use would exceed 65 percent of the original acquisition cost.
S	Scrap	Materiel that has no value except its basic material content.

* Percentage of repairs is determined by dividing the cost of repairing the item to a satisfactory operating condition by the original acquisition cost of a new item.

APPENDIX A: CONDITION CODES (Cont'd)

FCCs

Allowed SCC and DCC Combinations

<u>SCC</u>	<u>Authorized DCC</u>
A	1,2,3,4,5,6
B	1,2,3,4,5,6
C	1,2,3,4,5,6
D	1,2,3,4,5,6,7,8,9
E	7,8,9
F	7,8,9,X
G	7,8,9,X
H	7,8,9,X,S
S	X

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APPENDIX B: STATISTICAL SAMPLING PLAN AND RESULTS

DRMS provided tapes containing all transactions from its Integrated Disposal Management System. The transaction data included all issues from the DRMOs between January 1, 1990, and February 28, 1991, and corresponding data on the turn-ins of that materiel. We identified 109,145 records of issues, valued at \$1.049 billion, on the tapes. We concentrated on issues for reutilization of materiel valued at \$500 or more. We purified the universe by excluding duplicates, and we rejected records of all issues that we could not match to a turn-in document in the DRMS tape file. We used a stratified attribute sampling procedure to select two statistical samples totaling 820 issue transactions, valued at \$25.6 million, relating to 15 DRMOs from an adjusted universe of 100,572 issues, valued at \$665 million, (\$278 million of SCC "H" materiel and \$387 million of "A" through "G" SCC materiel). Two samples of issue documents were selected for each of the 15 audit sites. The first sample consisted of issues of materiel classified as SCC "H"; and the second sample consisted of issues of materiel classified as SCCs "A" through "G" (defined in Appendix A). We did not review issues of materiel classified as scrap.

We judgmentally selected a third sample from on-hand inventory records at the time of our visit at 13 DRMOs. This sample included materiel assigned SCCs "A" through "H". We used this sample to form an opinion on the accuracy of the condition codes and accountability for materiel on hand at the DRMOs. The total sample consisted of 388 line item receipts with an aggregate value of \$1.5 million and is not projectable to the universe of turn-ins.

The results of the statistical samples were projected to the universes using ratio estimate methods for random and stratified sampling procedures. The sample results for dollars all have relative precision measures that are within 22 percent of the estimated value with a 90-percent confidence. The sample results for the number of items with a given characteristic (frequency of occurrence) have relative precision measures that are within 10 percent of the estimated number with a 90-percent confidence.

APPENDIX B: STATISTICAL SAMPLING PLAN AND RESULTS (cont'd)

Projections on Accountability by Requisitioning Activities ¹

	<u>No.</u>	<u>Percent</u> ²	<u>Value</u> (000)	<u>Percent</u> ²
<u>Adequate Accountability</u>				
"H" condition code	22,082	43	\$ 84,918	30
"A" through "G" condition codes	<u>23,355</u>	47	<u>96,984</u>	25
Subtotal	45,437		\$181,902	
<u>Inadequate Accountability</u>				
"H" condition codes	28,510	56	\$191,201	69
"A" through "G" condition codes	<u>25,580</u>	52	<u>290,858</u>	75
Subtotal	54,090		\$482,059	
<u>Undeterminable</u> ³				
"H" condition code	489	1	\$ 1,899	1
"A" through "G" condition codes	<u>556</u>	1	<u>21</u>	
Subtotal	1,045		\$ 1,920	
Total	<u>100,572</u>		<u>\$665,881</u>	

¹ See page 29 for confidence and precision statement.

² Of the total for the condition code category.

³ Primarily attributable to lack of ready access to records. Because of discontinued or closed organizations, we could not form an opinion on the adequacy of accountability for the sample items.

APPENDIX B: STATISTICAL SAMPLING PLAN AND RESULTS (cont'd)

Projections on SCC Accuracy¹

	<u>No.</u>	<u>Percent</u> ²	<u>Value</u> (000)	<u>Percent</u> ²
<u>Accurate SCC</u>				
"H" condition code	13,730	27	\$ 98,402	35
"A" through "G" condition codes	<u>19,956</u>	40	<u>83,937</u>	22
Subtotal	33,686		\$182,339	
<u>Inaccurate SCC</u>				
"H" condition codes	13,919	27	\$ 48,532	18
"A" through "G" condition codes	<u>4,679</u>	9	<u>152,451</u>	39
Subtotal	18,598		\$200,983	
<u>Undeterminable SCC</u> ³				
"H" condition code	23,432	46	\$131,083	47
"A" through "G" condition codes	<u>24,856</u>	50	<u>151,476</u>	39
Subtotal	48,288		\$282,559	
Total	<u>100,572</u>		<u>\$665,881</u> ⁴	

¹ See page 29 for confidence and precision statement.

² Percentage of total for the condition code category.

³ We could not physically locate and determine the condition primarily because the materiel had been put to use and was not identified or because recordkeeping and accountability after the materiel was issued was inadequate.

⁴ Includes \$278 million of SCC "H" and \$387 million of SSC "A" through "G" materiel.

APPENDIX B: STATISTICAL SAMPLING PLAN AND RESULTS (cont'd)

Projections on Validity of Requirements¹

	<u>No.</u>	<u>Percent</u> ²	<u>Value</u> (000)	<u>Percent</u> ²
<u>Valid Requirement</u>				
"H" condition code	41,018	80	\$205,963	74
"A" through "G" condition code	<u>37,602</u>	76	<u>340,270</u>	88
Subtotal	78,620		\$546,233	
<u>Invalid Requirement</u>				
"H" condition code	4,558	9	\$ 10,393	4
"A" through "G" condition code	<u>1,584</u>	3	<u>14,144</u>	4
Subtotal	6,142		\$ 24,537	
<u>Undetermined</u> ³				
"H" condition code	5,505	11	\$ 61,662	22
"A" through "G" condition code	<u>10,305</u>	21	<u>33,449</u>	8
Subtotal	15,810		\$ 95,111	
Total	<u>100,572</u>		<u>\$665,881</u>	

¹ See page 29 for confidence and precision statement.

² Percentage of total for the condition code category.

³ We could not validate the requirements primarily because of a lack of documentation on how the materiel was used.

APPENDIX B: STATISTICAL SAMPLING PLAN AND RESULTS (cont'd)

Summary of Judgmental Sample
Accuracy of Condition Codes of Materiel on Hand at DRMOS

Sample Item FCC *	Number of Items	Value	Audit Opinion on Condition Code			
			Accurate	Inaccurate	FCC Should Have Been	
					Better Than Code Assigned	Worse Than Code Assigned
A1 - A6	141	\$ 364,209	\$ 363,929	\$ 280	\$ 0	\$280
B1 - B6	14	37,944	37,944	0	0	0
D1 - D6	1	102	102	0	0	0
E7 - E9	1	1,500	1,500	0	0	0
F7 - F9	24	142,434	142,359	75	75	0
H7 - H9	52	110,423	94,638	15,785	15,785	0
FX	21	168,278	158,468	9,810	9,810	0
GX	1	474	474	0	0	0
HX	105	692,407	677,242	15,165	15,165	0
HS	28	7,554	7,554	0	0	0
Total	388	\$1,525,325	\$1,484,210	\$41,115	\$40,835	\$280

* See Appendix A for listing of FCCs.

APPENDIX B: STATISTICAL SAMPLING PLAN AND RESULTS (cont'd)

Summary of Judgmental Sample
Accounting for Materiel on Hand at DRMOs

<u>DRMO</u>	<u>Number of</u> <u>Items</u>	<u>Sample</u> <u>Value</u>	<u>Audit Opinion</u> <u>on Materiel</u>	
			<u>Accounted</u> <u>For</u>	<u>Missing</u>
Campbell	30	\$ 89,239	\$ 89,239	\$ 0
Charleston	30	240,054	239,824	230
Dover	30	19,380	19,309	71
Ellsworth	28	310,675	310,675	0
Hawaii	30	67,057	55,805	11,252
Hill	30	93,910	93,910	0
Kaiserslautern	30	58,566	56,971	1,595
Keesler	30	188,131	187,286	845
Lewis	30	19,156 *	19,156	0
Mechanicsburg	30	105,793	105,793	0
Memphis	30	31,863	31,863	0
Nuernberg	30	48,190	48,190	0
Warner Robins	<u>30</u>	<u>253,311</u>	<u>253,311</u>	<u>0</u>
Total	<u>388</u>	<u>\$1,525,325</u>	<u>\$1,511,332</u>	<u>\$13,993</u>

* Includes one item of unknown value.

APPENDIX C: REFERRALS FOR CRIMINAL INVESTIGATION

<u>Referred for Investigation by</u>	<u>Reason for Referral or Description of Suspected Illegal Act</u>	<u>Value of Materiel *</u>
Army **	Materiel obtained from DRMO for personal use	\$ 1,704
Navy	Missing materiel at a DRMO	\$ 3,757
Navy **	Unauthorized distribution of materiel withdrawn from a DRMO	\$39,644
Navy **	Materiel obtained from DRMO for personal benefit	\$ 1,300
DoD **	Individual obtained property from DRMO by misrepresenting authority	\$15,507
DoD **	Materiel obtained from DRMO without authorization and some sold without approval	Over \$1 million
DoD **	Materiel withdrawn from DRMO in excessive amounts and for unauthorized use	\$4.5 million
DoD	Unit canceled requisitions for withdrawal but materiel was withdrawn from the DRMO and subsequently could not be located	\$87,000
DoD	Materiel was missing from requisitioning unit	\$12,000
DoD **	Individual obtained property from DRMO by misrepresenting authority	\$65,600

* Values are based on quantities and unit prices in the DRMS accounting system. The prices may not be reliable indicators of actual values because the prices usually relate to materiel in serviceable condition, whereas much of the materiel involved in the referrals for investigations was reportedly in unserviceable condition.

** Involved possible misappropriation or theft of Government property.

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APPENDIX D: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Type of Benefit</u>
1. through 5.	<u>Internal Control.</u> Improve condition code accuracy and enhance the control and accountability for Government property to ensure that it is adequately safeguarded from loss or misuse.	<u>Nonmonetary.</u>

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APPENDIX E: ORGANIZATIONS VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics),
Washington DC

Department of the Army

Office of the Deputy Chief of Staff for Logistics, Washington, DC
Headquarters, Fort Campbell, KY
Headquarters, Fort Gillem, GA
Headquarters, Fort Hood, TX
Headquarters, Fort Lewis, WA
Headquarters, Fort Sam Houston, TX
Tooele Army Depot, Tooele, UT
1st Battalion, 5th Special Forces Group, Fort Campbell, KY
595th Military Police Company, Fuerth, Germany
229th Supply and Service Company, Augsburg, Germany
7th Armored Division, Bitburg, Germany
40th Ordnance, Detachment Explosive Ordnance, Camp Shelby,
Hattiesburg, MS
United States Army Electronic Radar Air Defense Command,
White Sands, Las Cruces, NM
United States Army Supply Support Activity, Baumholder, Germany
United States Army Supply Support Activity, Vilseck, Germany
Area Maintenance Support Activity, Jacksonville, FL
Army National Guard, United States Property and Fiscal Office -
Arkansas, North Little Rock, AR
Army National Guard, United States Property and Fiscal Office -
California, San Luis Obispo, CA
Army National Guard, United States Property and Fiscal Office -
Mississippi, Jackson, MS
Army National Guard, United States Property and Fiscal Office -
South Dakota, Rapid City, SD
Army National Guard, United States Property and Fiscal Office -
Tennessee, Nashville, TN
Army National Guard, United States Property and Fiscal Office -
Utah, Draper, UT
United States Army Reserve Center, Brownsville, PA
United States Army Reserve Center, Jonesboro, AR
United States Army Reserve School, New Orleans, LA
United States Army Reserve Center, Ogden, UT
National Guard, Lavinia, TN
United States Army Engineering District, Memphis, TN
Area Maintenance Support Activity, Memphis, TN

APPENDIX E: ORGANIZATIONS VISITED OR CONTACTED (cont'd)

Veterinary Services, Alameda, CA
Reserve Officers Training Corps, University of Mississippi,
Jackson, MS
Reserve Officers Training Corps, University of Utah, Salt Lake
City, UT

Department of the Navy

Commander in Chief, United States Atlantic Fleet, Norfolk, VA
Naval Supply Systems Command, Crystal City, VA
United States Pacific Command, Camp H.M. Smith, HI
Naval Station-Charleston, Charleston, SC
Naval Station-Norfolk, Norfolk, VA
Naval Station-Pearl Harbor, Pearl Harbor, HI
Naval Station-Philadelphia, Philadelphia, PA
Naval Station-Seattle, Seattle, WA
Naval Station-Treasure Island, San Francisco, CA
United States Submarine Base, Pearl Harbor, HI
Naval Submarine Base, Kings Bay, GA
Naval Amphibious Base, Little Creek, Norfolk, VA
Naval Air Depot-Jacksonville, Jacksonville, FL
Naval Air Station-Alameda, Alameda, CA
Naval Air Station-Barbers Point, Barbers Point, HI
Naval Air Station-Cecil Field, Cecil Field, FL
Naval Air Station-Corpus Christi, Corpus Christi, TX
Naval Air Station-Jacksonville, Jacksonville, FL
Naval Air Station-Memphis, Millington, TN
Naval Air Station-Moffett Field, Moffett Field, CA
Naval Air Station-New Orleans, New Orleans, LA
Naval Air Station-Norfolk, Norfolk, VA
Naval Air Station-North Island, San Diego, CA
Naval Air Station-Oceana, Virginia Beach, VA
Naval Air Station-Whidbey Island, Oak Harbor, HI
Naval Shipyard-Charleston, Charleston, SC
Naval Shipyard-Norfolk, Norfolk, VA
Naval Shipyard-Philadelphia, Philadelphia, PA
Naval Shipyard-Pearl Harbor, Pearl Harbor, HI
Naval Shipyard-Puget Sound, Bremerton, WA
Naval Supply Center-Jacksonville, Jacksonville, FL
Naval Supply Center-Oakland, Oakland, CA
Naval Supply Depot Undersea Warfare, Keyport, WA
Naval Undersea Warfare Engineers, Lualualei, HI
Naval Construction Battalion Center, Gulfport, MS
Naval Weapons Station-Charleston, Charleston, SC
Naval Weapons Station-Norfolk, Norfolk, VA
Mobile Mine Assembly Group, Lualualei, HI
Mobile Mine Assembly Group, North Charleston, SC

APPENDIX E: ORGANIZATIONS VISITED OR CONTACTED (cont'd)

Ship Intermediate Maintenance Activity, Norfolk, VA
Ship Intermediate Maintenance Activity, San Francisco, CA
Trident Refit Facility, Kings Bay, GA
Naval Aviation School Command, Pensacola, FL
Naval Air Technical Training Center, Millington, TN
Naval Fleet Training Center, Norfolk, VA
Naval Fleet Training Group, Pearl Harbor, HI
Naval Magazine, Lualualei, HI
Attack Squadron VA-205, Marietta, GA
Naval Hospital, Beaufort, SC
Naval Ready Reserve Command, Jacksonville, FL
Naval and Marine Ready Reserve Center, Treasure Island,
San Francisco, CA
Naval Reserve Center, Atlanta, GA
Naval Recruiting District, New Orleans, LA
Naval Aviation Museum, Pensacola, FL
Southwest Research Institute, San Antonio, TX

Department of the Air Force

Department of the Air Force (Logistics and Engineering),
Washington, DC
Air Force Logistics Center, Fairborn, OH
Air National Guard, New Orleans, LA
Charleston Air Force Base, North Charleston, SC
Hill Air Force Base, Ogden, UT
Keesler Technical Training Center, Keesler Air Force Base,
Biloxi, MS
Ogden Air Logistics Center, Base Supply, Hill Air Force Base,
Ogden, UT
San Antonio Air Logistics Command, Base Supply, Kelly Air Force
Base, San Antonio, TX
Tennessee Air National Guard, Nashville, TN
United States Air Force Hospital, Warner Robins Air Force Base,
Warner Robins, GA
United States Air Force Medical Center, Keesler Air Force Base,
Biloxi, MS
Warner Robins Air Logistics Command, Depot Supply, Warner Robins
Air Force Base, Warner Robins, GA
Wilford Hall Medical Center, Lackland Air Force Base,
San Antonio, TX
3210 Supply Squadron, Eglin Air Force Base, Mary Ester, FL
812 Supply Squadron, Ellsworth Air Force Base, Rapid City, SD
834 Supply Squadron, Hurlburt Field, Valparasio, FL
354 Supply Squadron, Myrtle Beach Air Force Base,
Myrtle Beach, SC
347 Supply Squadron, Moody Air Force Base, Valdosta, GA
67 Supply Squadron, Bergstrom Air Force Base, Austin, TX

APPENDIX E: ORGANIZATIONS VISITED OR CONTACTED (cont'd)

366 Supply Squadron, Mountain Home Air Force Base, Mountain Home, ID
66 Supply Squadron, Sembach Air Base, Germany
7100 Combat Support Wing Base Supply, Lindsey Air Station, Germany
6750 Air Base Group, Brooks Air Force Base, San Antonio, TX
2849 Air Base Group, Hill Air Force Base, Ogden, UT
3380 Air Base Group, Keesler Air Force Base, Biloxi, MS
436 Air Base Group, Dover Air Force Base, Dover, DE
15 Air Base Wing, Hickam Air Force Base, HI
62 Military Airlift Wing, McChord Air Force Base, Tacoma, WA
436 Military Airlift Wing, Dover Air Force Base, Dover, DE
92 Bomb Wing, Fairchild Air Force Base, Spokane, WA
97 Bomb Wing, Eaker Air Force Base, Blytheville, AR
50 Tactical Fighter Wing, Hahn Air Base, Germany
36 Tactical Fighter Wing, Bitburg Air Base, Germany
314 Tactical Airlift Wing, Little Rock Air Force Base, AR
926 Tactical Fighter Group, Naval Air Station, New Orleans, LA
316 Air Depot, Ramstein Air Base, Germany
97 Strategic Hospital, Eaker Air Force Base, Blytheville, AR
7100 Combat Support Wing Medical Center, Lindsey Air Station, Wiesbaden, Germany
6501 Range Squadron, Hill Air Force Base, Ogden, UT

Marines

Headquarters, 3rd Marines, Kaneohe Bay, HI
Marine Air Station, Kaneohe Bay, HI
Marine Aviation Training Group 90, Millington, TN
Marine Corps Recruiting Depot, Paris Island, SC
Military Airlift Wing Atlantic, Beaufort, SC
United States Marine Corps Security Force, Naval Air Station, Alameda, CA
1st Battalion, 12th Marines, Kaneohe Bay, HI
4th Landing Support Battalion, Seattle, WA

Defense Logistics Agency

Defense Logistics Agency, Cameron Station, VA
Defense Reutilization and Marketing Service, Battle Creek, MI
Defense Reutilization and Marketing Region, Ogden, UT
Defense Reutilization and Marketing Office-Alameda, Alameda, CA
Defense Reutilization and Marketing Office-Campbell, Fort Campbell, Clarksville, TN
Defense Reutilization and Marketing Office-Charleston, North Charleston, SC
Defense Reutilization and Marketing Office-Columbus, Columbus, OH
Defense Reutilization and Marketing Office-Dover, Dover Air Force Base, Dover, DE

APPENDIX E: ORGANIZATIONS VISITED OR CONTACTED (cont'd)

Defense Reutilization and Marketing Office-Ellsworth,
Ellsworth Air Force Base, Rapid City, SD
Defense Reutilization and Marketing Office-Hawaii,
Pearl City, HI
Defense Reutilization and Marketing Office-Hill, Hill Air Force
Base, Ogden, UT
Defense Reutilization and Marketing Office-Jacksonville,
Jacksonville, FL
Defense Reutilization and Marketing Office-Kaiserslautern,
Kaiserslautern, Germany
Defense Reutilization and Marketing Office-Keesler,
Keesler Air Force Base, Biloxi, MS
Defense Reutilization and Marketing Office-Lewis, Fort Lewis,
Tacoma, WA
Defense Reutilization and Marketing Office-Mechanicsburg,
Mechanicsburg, PA
Defense Reutilization and Marketing Office-Memphis, Memphis, TN
Defense Reutilization and Marketing Office-Moffett Field,
Moffett Field, CA
Defense Reutilization and Marketing Office-Norfolk, Norfolk, VA
Defense Reutilization and Marketing Office-Nuernberg,
Nuernberg, Germany
Defense Reutilization and Marketing Office-San Antonio,
Kelly Air Force Base, San Antonio, TX
Defense Reutilization and Marketing Office-Tooele, Tooele Army
Depot, Tooele, UT
Defense Reutilization and Marketing Office-Warner Robins,
Warner Robins Air Force Base, Warner Robins, GA
Defense Depot Region West, Oakland, CA
Defense Industrial Supply Center, Philadelphia, PA
Defense Electronics Supply Center, Dayton, OH

Other Organizations

Defense Investigative Service, Washington, DC
Defense Investigative Service, Santa Clara, CA
National Aeronautics and Space Administration, Ames Research
Center, Moffett Field, CA

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APPENDIX F. REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Navy Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management
and Comptroller)
Air Force Audit Agency

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Office of the Inspector General, Defense Intelligence Agency

Non-Defense Organizations

Office of Management and Budget
U.S. General Accounting Office
National Security and International Affairs Division,
Technical Information Center
National Security and International Affairs Division,
Defense and National Aeronautics and Space Administration
Management Issues
National Security and International Affairs Division,
Military Operations and Capabilities Issues

Chairman and Ranking Minority Members of Each of the Following
Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations

APPENDIX F. REPORT DISTRIBUTION (cont'd)

Non-Defense Organizations (cont'd)

Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

PART IV - MANAGEMENT COMMENTS

Assistant Secretary of Defense (Production and Logistics)

Department of the Army

Department of the Navy

Department of the Air Force

Defense Logistics Agency

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ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
COMMENTS



PRODUCTION AND
LOGISTICS
(L/MRM)

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

February 19, 1993

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE
OFFICE OF THE INSPECTOR GENERAL
THRU: CHIEF, CAIR, PI *W 23 Feb 93*

SUBJECT: Draft Audit Report on the Condition and Economic
Recoverability of Materiel in the Disposal Process
(Project No. 1LE-0021) dated December 14, 1992

Our comments on the recommendation 3 presented in the Draft Audit
Report are attached.

[Signature]
Jeffrey A. Jones
Acting Deputy Assistant Secretary
(Logistics)

Attachment

ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
COMMENTS (cont'd)

OASD(P&L) Comments on
Office of the Inspector General Draft Audit Report on the
Condition and Economic Recoverability of Materiel in the Disposal
Process (Project No. 1LE-0021)
December 14, 1992

RECOMMENDATION 3: We recommend that the Assistant Secretary of Defense (Production and Logistics) revise DoD Manual 4160.21-M to require that requisitions (DD Form 1348-1) by contractors contain the signature and title of the Government representative authorizing the withdrawal.

P&L COMMENT: Concur. The Defense Reutilization and Marketing Manual, DoD 4160.21-M currently requires the contracting officer to authorize the withdrawal of property by a contractor from a Defense Reutilization and Marketing Office. The property withdrawal requisition form (DD Form 1348-1) must be submitted by (signed by) the contracting officer. The manual reference is Chapter XII, paragraph I, sub paragraph 3.

Jeffrey A. Jones
Director, Materiel and
Resource Management Policy

ATTACHMENT

DEPARTMENT OF THE ARMY COMMENTS



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON, DC 20310-0500



12 FEB 1993

DALO-SMP

MEMORANDUM THRU

~~DEPUTY CHIEF OF STAFF FOR LOGISTICS~~ *Edw 12 Feb 93*

~~DIRECTOR OF THE ARMY STAFF~~ *Dr 16 Feb 93*

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)

Eric A. Creni
Deputy Assistant Secretary of the

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: Draft Report on the Condition and Economic Recoverability of Materiel in the Disposal Process (Project No. 1LE-0021)--INFORMATION MEMORANDUM

1. This is in response to HQDA IG memorandum of 17 December 1992 (Tab A), which asked ODCSLOG to review and comment on the subject report (Encl to Tab A).

2. Army comments on the subject report are at Tab B.

FOR THE DEPUTY CHIEF OF STAFF FOR LOGISTICS:

2 Encls

James W. Ball
JAMES W. BALL
Major General, GS
Director of Supply
and Maintenance

Regina George/52795

DEPARTMENT OF THE ARMY COMMENTS (cont'd)

REPLY TO
DEPARTMENT OF DEFENSE INSPECTOR GENERAL
INSPECTION OF HAZARDOUS WASTE MINIMIZATION
DRAFT REPORT

Recommendation 1: We recommend that the Commander, Army Materiel Command, Naval Supply Systems Command, and Air Force Materiel Command and Director, Defense Logistics Agency issue guidance to require subordinate activities that turn-in materiel to document and provide to the Defense Reutilization and Marketing Office (DRMO) the basis for condemning the materiel along with the related repair estimate.

Army comment: Non-concur. This data will add no value to the process and it is not specified how the data will be used. Materiel turned in below the wholesale level is already subjected to a "two-man check." Materiel condemned at the repair depot level is classified by quality inspectors. DRMO personnel do not have the technical expertise to evaluate either the basis for condemning the materiel or the cost estimate to repair. Except for designated repair/rebuild depots, activities do not have the expertise to develop a valid cost estimate. Even were it possible to develop valid cost estimates, there would be little to gain from this labor intensive process: Many items are coded as non-repairable based upon the maintenance concept of the end-items. These items are turned in below the depot level for economic and readiness reasons considered during the Logistics Support Analysis (LSA) process. Development of an estimated repair cost on an item by item basis would subvert decisions made for total weapon system management and would serve no purpose. Repairable materiel that does not meet repair criteria are transferred to the DRMO in condition "H." Again, development of a repair cost estimate would be inappropriate for materiel that does not meet technical standards. Finally, repairable materiel that meets technical repair criteria, but for which the Army has no requirement, are transferred to the DRMS in condition "F." Development of a cost estimate for this materiel would expend shrinking DBOF dollars on materiel for which the MSCS have no requirement.

Recommendation 2: We recommend that the Commander, Defense Reutilization and Marketing Service (DRMS) revise DRMS-H 4160.3 to require that: a. DRMOs document their reviews and challenges of supply condition codes of turned in materiel and resulting code changes made. The documentation should include the name, title, and organization of the individual changing the code and the reason for changing the supply condition code. b. DRMOs document the basis for assigned disposal condition codes for materiel valued at \$1000 or more. c. DRMOs return a copy of the accepted letter of authorization to the accountable officer of

DEPARTMENT OF THE ARMY COMMENTS (cont'd)

the submitting activity, indicating that the DRMO will recognize the named individual(s) as authorized to withdraw materiel from the DRMO.

Army comment: Concur.

Recommendation 3: We recommend that the Assistant Secretary of Defense (Production and Logistics) revise DoD Manual 4160.21-M to require that requisitions (DD Form 1348-1) by contractors contain the signature and title of the Government representative authorizing the withdrawal.

Army comment: Concur.

Recommendation 4: We recommend that the U.S. Army Deputy Chief of Staff for Logistics revise Army Regulation 735-5 and the Navy Comptroller revise Navy Comptroller Manual, volume III, to include: a. Controls to ensure that only authorized personnel withdraw materiel from DRMS for valid requirements. The controls should provide for periodic management oversight reviews of materiel withdrawn from DRMS. b. Criteria for accounting for property withdrawn from DRMS to include materiel to be used for cannibalization, training aids, or targets and require requisitioning activities to establish accountability and controls over withdrawn materiel (including unserviceable assets).

Army comment: Non-concur. AR 710-2 already requires that only authorized personnel withdraw materiel from DRMS for only valid requirements. The provisions of AR 735-5 are clear: all property must be accounted for regardless of source. There are no exceptions unless authorized via a waiver or deviation approval by HQDA. DOD 4160.21-M, Defense Reutilization and Marketing Manual, requires DOD Screeners to identify themselves as authorized representatives of the Military Service/Defense Agency by current identification card, account number or in the clear address for which they are screening. Beginning 1 April 93 they will also need to present a valid fund code to cover the reutilization fee for each item withdrawn. These controls are considered adequate.

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DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research, Development and Acquisition)
WASHINGTON, D C 20350-1000

FEB 23 1993

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR
GENERAL FOR AUDITING *A2*

Subj: DODIG DRAFT AUDIT REPORT ON THE CONDITION AND ECONOMIC
RECOVERABILITY OF MATERIEL IN THE DISPOSAL PROCESS
(PROJECT NO. 1LR-0021)

Ref: (a) DODIG memo of 14 Dec 92

Encl: (1) Department of the Navy Comments

In reply to reference (a), we have reviewed the findings and
recommendations in the subject report.

We agree with your recommendations that there should be
adequate controls and accountability over materiel withdrawn from
disposal. While there is an existing directive that only
authorized personnel may withdraw materiel from disposal, we will
request that the directive be amended to require periodic review
of the status of items withdrawn from disposal and that the
requirement for the items be validated. Also, Navy Comptroller
manuals already address accounting requirements, regardless of
source, for much of the materiel cited in your report. However,
the Defense Finance and Accounting Service should provide final
comments on recommendation 4.b., since they now have
responsibility for accounting DOD-wide.

We do not concur with your recommendation to require
subordinate activities that turn in materiel to document and
provide to the Defense Reutilization and Marketing Office (DRMO)
the basis for condemning the materiel along with the related
repair estimate. The cost to implement and maintain this
recommendation would be exorbitant in terms of time and money
especially during a period of rapidly declining resources.
Additionally, there is no automated means to transmit this
information to a DRMO, nor is it apparent how this information
would assist the DRMO.

Detailed comments are provided in enclosure (1).

Edward C. Whitman
Edward C. Whitman

Copy to:
NAVINGEN
NAVCOMPT (NCB-53)

DEPARTMENT OF THE NAVY COMMENTS (cont'd)

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT OF 14 DECEMBER 1992
ON
THE CONDITION AND ECONOMIC RECOVERABILITY OF MATERIEL
IN THE DISPOSAL PROCESS
(PROJECT NO. 1LE-0021)

I. CONDITION CODES AND ACCOUNTABILITY

Summary of finding

Department of Defense (DOD) activities assigned inappropriate condition codes to materiel turned in to Defense Reutilization and Marketing Service (DRMS) for reutilization, donation, or sale; the Defense Reutilization and Marketing Office's (DRMO) records did not indicate that the DRMO's had reviewed and challenged inappropriate condition codes for turned-in materiel; and DOD-related personnel and activities withdrew materiel from the DRMOs without a valid need and did not maintain adequate controls and accountability of the materiel after withdrawal.

DON Comment

Concur.

Recommendations

1. We recommend that the Commanders, Army Materiel Command, Naval Supply Systems Command (NAVSUP), and Air Force Materiel Command, and the Director, Defense Logistics Agency issue guidance to require subordinate activities that turn in materiel to document and provide to the DRMO the basis for condemning the materiel along with the related repair estimate.

DON Comment

Do not concur. Repairs to equipment are based on a maintenance concept established by DOD Instruction 4151.16, Subj: DOD Equipment Maintenance Program. Under this concept an analytical technique is used called a Level of Repair Analysis (LORA). A LORA makes both economic and non-economic evaluations to establish if an item is to be repaired and at what level, or if it should be discarded upon failure. These decisions are made by the Hardware Systems Commands (HSCs) and not the supply system. For example, Depot Level Repairables (DLRs) must be turned-in for repair at a designated overhaul point (DOP). Under DOD guidance, a decision matrix is used to determine whether to keep and repair or discard a repairable item. Although a general idea of the repair cost may be known at this time, there is no automated means of transmitting this information to a DRMO nor is it apparent how this information would assist the DRMO in garnering a greater return on the dollar. The repair estimate is not a good indicator, during a visual inspection by a DRMO, in

determining if the correct condition code was used by the turn-in activity. Many of the deficiencies of a repair part may not be visible during this inspection.

Defer comment to the Commander, Defense Reutilization and Marketing Service for recommendation 2 and to the Assistant Secretary of Defense (Production and Logistics) for recommendation 3.

4. We recommend that the U.S. Army Deputy Chief of Staff for Logistics revise Army Regulation 735-5 and the Navy Comptroller revise Navy Comptroller Manual (NAVCOMPT), Volume III, to include:

a. Controls to ensure that only authorized personnel withdraw materiel from DRMS for valid requirements. The controls should provide for periodic management oversight reviews of materiel withdrawn from DRMS.

DON Comment

Concur that there should be published controls to ensure that only authorized personnel withdraw materiel from DRMS for valid requirements. However, this is a logistics issue and does not belong in the NAVCOMPT Manual. NAVSUP assumes responsibility for this recommendation.

The requirement to have the accountable officer provide the DRMO with names, activity, telephone number, etc., of persons authorized to remove property from the DRMO on behalf of the activity and a list of authorized signatures of the persons requisitioning on behalf of the activity are included in the DOD Defense Reutilization and Marketing Manual, DOD 4160.21M. We will recommend at the next disposal manual review, scheduled for the spring of 1993, that the manual also include a requirement for the accountable officer to establish periodic reviews of the status of the items requisitioned from the DRMO and that the requirement be validated. Estimated completion date is 30 June 1993.

b. Criteria for accounting for property withdrawn from DRMS to include materiel to be used for cannibalization, training aids, or targets and require requisitioning activities to establish accountability and controls over withdrawn materiel (including unserviceable assets.)

DON Comment

We partially concur with 4.b. The NAVCOMPT Manual provides information for materiel accounting regardless of source, which would include DRMS, and are properly limited to property qualifying as: plant account and minor property (Volume 3); stores inventory (Volume 8); and Defense Business Operations Fund industrial-type inventories (Volume 5). They could be reviewed

5.

DEPARTMENT OF THE NAVY COMMENTS (cont'd)

with a view toward strengthening language emphasizing that the same treatment is required for materiel received without charge including from DRMS. The responsibility for the policy and procedures contained in NAVCOMPT accounting manuals is now assigned to the Defense Finance and Accounting Service - Cleveland Center. Accountability and control procedures for materiel in the custody of users that is outside the scope of the above mentioned categories does not belong in NAVCOMPT manuals but should be addressed in other applicable publications or directives.

DEPARTMENT OF THE AIR FORCE COMMENTS



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C. 20330

22 FEB 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: DoD(IG) Draft Report on the Condition and Economic
Recoverability of Materiel in the Disposal Process
(Project No. 1LE-0021) - INFORMATION MEMORANDUM

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on the subject report.

We concur with the intent of Recommendation 1. Air Force policy already requires turn-in activities to estimate repair costs and to determine if those costs exceed the maximum repair allowance (75% of unit cost or as established in technical orders or other directives). If the decision is made to condemn property, procedures require the turn-in activity to document the reason on the DD Forms 1577/1577-1, which remain on the property throughout Defense Reutilization and Marketing Service processing.

We see no purpose in assigning an estimated repair cost on the DD Form 1577. Statements, such as, repair exceeds 75% of unit cost, shelf-life expired, condemned by TCTO, etc., adequately reflect the basis for condemnation and should be sufficient for the Defense Reutilization and Marketing Office (DRMO) to decide whether to challenge the supply condition code.

By 1 May 93, the Commander, Air Force Materiel Command, will reemphasize to all USAF activities the policy requiring activities to document reasons for condemning item turn-ins. In addition, AFMC will revise all applicable procedures and technical orders to make the condemnation reason a mandatory entry on documentation for condemned items being turned in to the DRMO.

Our POC is Ms Ruth Hill, (703) 695-4514.


TREVOR A. HAMMOND, Lt Gen, USAF
DCS/Logistics

cc: SAF/FMPF
AF/LGAA (2)
DASD(L/MRM)

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DEFENSE LOGISTICS AGENCY COMMENTS



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY
REFER TO

DLA-CI

10 MAR 1993

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: DoD IG Draft Report on "Condition and Economic
Recoverability of Materiel in the Disposal Process
(Project No. 1LE-0021), dated 14 Dec 92

This is in response to your 14 Dec 1992 request.

5 Encl

JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of Comptroller

CC:
DLA-OC
DLA-LX
DRYS

DEFENSE LOGISTICS AGENCY COMMENTS (cont'd)

FORMAT : OF 5

TYPE OF REPORT: AUDIT

DATE OF POSITION: 9 Mar 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE & NO: Condition and Economic Recoverability of Materiel
in the Disposal Process (Project No. 1LE-0021)

FINDINGS: DoD activities assigned inappropriate condition codes to materiel turned in to DRMS for reutilization, donation, or sale; the DRMOs' records did not indicate that the DRMO had reviewed and challenged inappropriate condition codes for turned in materiel; and DoD-related personnel and activities withdrew materiel, much miscoded as "condemned", from the DRMOs without a valid need and did not maintain adequate control and accountability over the materiel after withdrawal.

DLA COMMENTS: Partially concur. Condition code assignments by the turn-in activities are based on "best judgement" and may not always be accurately assessed. However, condition codes are challenged by the DRMO when a DRMO can identify the item (subassembly, parts, black boxes, etc.), and determine the condition. In accordance with DRMO standard operating procedures, DRMS-M 4160.14:

When it is obvious the quantity, item identification, condition or price are incorrect, the DRMO will seek resolution of the discrepancy with the generator. If the generator changes the data, the DTID will be annotated by the generator's representative. Where it is impractical for the generator to send someone to change the DTID and the generator agrees that a change is authorized, a DRMO receiver/supervisor will make the appropriate annotation (including who authorized the change, date and initials of DRMO employee). When the generating activity refuses to either change the document or authorize a change to be made by the DRMO, the property will be returned to the generator using DRMS Form 917.

The DRMO personnel are not technically qualified or trained to assess supply condition, nor can they start-up the equipment. When a change is determined necessary, the change is required to be annotated on the DD Form 1348-1. Because the success rate of code challenges is very low, there is no discernible benefit to maintaining any additional challenge records.

ACTION OFFICER: K. Haas, DLA-OCS, 77998

PSE APPROVAL: James J. Grady, Jr., Deputy Executive Director,
Directorate of Supply Operations, DLA-OD

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

DEFENSE LOGISTICS AGENCY COMMENTS (cont'd)

FORMAT 2 OF 5

TYPE OF REPORT: AUDIT

DATE OF POSITION: 9 Mar 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE & NO: Condition and Economic Recoverability of Materiel
in the Disposal Process (Project No. 1LE-0021)

RECOMMENDATION 1: We recommend that the Director, Defense Logistics Agency, issue guidance to require subordinate activities, that turn-in materiel, document and provide to the Defense Reutilization and Marketing Office (DRMO) the basis for condemning the materiel along with the related repair estimate.

DLA COMMENTS: Partially concur. DLA turn-in activities are required by DLAM 4505.1, "Administration, Control, and Reporting of DLA Operating Equipment", to document property condition as well as an approximate cost of repairs. This assessment is completed by utilizing DLA Form 1730, Vehicle Technical Inspection, or DLA Form 1311, Equipment Transfer or Return. We will review the IG report with DRMS during the next scheduled staff assistance visit. If additional procedural enforcement is then determined necessary, we will issue a policy letter to reemphasize the DLAM 4505.1 documentation requirements.

DISPOSITION:

- x. Action is ongoing. Estimated Completion Date: 31 Dec 93
- Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (x) Concur; however, weakness is not considered materiel.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is materiel and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: K. Haas, DLA-OCS, 77998

PSE APPROVAL: James J. Grady, Jr., Deputy Executive Director,
Directorate of Supply Operations, DLA-OD

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

DEFENSE LOGISTICS AGENCY COMMENTS (cont'd)

FORMAT 3 OF 5

TYPE OF REPORT: AUDIT

DATE OF POSITION: 9 Mar 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE & NO: Condition and Economic Recoverability of Materiel
in the Disposal Process (Project No. 1LE-0021)

RECOMMENDATION 2.a: We recommend that the Commander, Defense Reutilization and Marketing service (DRMS), revise DRMS-H 4160.3 to require that DRMOs document their reviews and challenges of supply condition codes of turned in materiel and the resulting code changes made. The documentation should include the name, title, and organization of the individual changing the code and the reason for changing the supply condition code.

DLA COMMENTS: Concur. DRMS estimates incorporation of the recommended change by the end of March 93. The ECD reflects time needed for coordination, printing and distribution of the revised handbook.

DISPOSITION:

- (x) Action is ongoing. Estimated Completion Date: 15 Apr 93
- () Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (x) Concur; however, weakness is not considered materiel.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is materiel and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Rose Mouton, DRMS-SOO/ K. Haas, DLA-OCS, 77998,

PSE APPROVAL: James J. Brady, Jr., Deputy Executive Director,
Directorate of Supply Operations, DLA-OD

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

DEFENSE LOGISTICS AGENCY COMMENTS (cont'd)

FORMAT 4 OF 5

TYPE OF REPORT: AUDIT

DATE OF POSITION: 9 Mar 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE & NO: Condition and Economic Recoverability of Materiel
in the Disposal Process (Project No. 1LE-0021)

RECOMMENDATION 2.b: We recommend that the Commander, Defense Reutilization and Marketing Service (DRMS), revise DRMS-H 4160.3 to require that DRMOs document the basis for assigned disposal condition codes for materiel valued at \$1,000 or more.

DLA COMMENTS: Nonconcur. The time required to document the basis for assigned disposal condition codes for materiel valued at \$1,000 or more will significantly impede the receiving program. Additionally, the IG did not estimate any benefits from this recommendation. There is no documented benefit but substantial cost.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- (X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- () Concur; however, weakness is not considered materiel. (Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is materiel and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Rose Mouton, DRMS-SOO/ K. Haas, DLA-OCS, 77998.

PSE APPROVAL: James J. Grady, Jr., Deputy Executive Director,
Directorate of Supply Operations, DLA-OD

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

DEFENSE LOGISTICS AGENCY COMMENTS (cont'd)

FORMAT 5 OF 5

TYPE OF REPORT: AUDIT

DATE OF POSITION: 9 Mar 93

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Condition and Economic Recoverability of Materiel
in the Disposal Process (Project No. 1LE-0021)

RECOMMENDATION 2.c: We recommend that the Commander, Defense Reutilization and Marketing Service (DRMS), revise DRMS-H 4160.3 to require that DRMOs return a copy of the accepted letter of authorization to the accountable officer of the submitting activity, indicating that the DRMO will recognize the named individual(s) as authorized to withdraw materiel from the DRMO.

DLA COMMENTS: Concur. DRMS estimates incorporation of the recommended change by the end of March. We have adjusted their ECD to allow for coordination, printing and distribution of the revised handbook.

DISPOSITION:

- (x) Action is ongoing. Estimated Completion Date: 30 Jun 93
- () Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (x) Concur; however, weakness is not considered materiel.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is materiel and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Rose Mouton, DRMS-SO0/ K. Haas, DLA-OCS, 77998,
PSE APPROVAL: James J. Grady, Jr., Deputy Executive Director,
Directorate of Supply Operations, DLA-OD

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

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INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Condition and Economic Recoverability of Materiel in the Disposal Process

B. DATE Report Downloaded From the Internet: 04/24/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

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